

Submission to the Senate Standing Committees on Environment and Communications on the *Telecommunications (Regional Broadband Scheme) Charge Bill 2019*.

Introduction

OptiComm is one of a small number of carriers that own high speed fixed line telecommunications networks and will be required to pay the new tax proposed in the *Telecommunications (Regional Broadband Scheme) Charge Bill 2019 (the RBS Charge Bill)*. OptiComm was providing open access high speed fibre networks years before NBNCo entered the telecommunications market. We welcome the opportunity to provide comments.

Key Points on the new \$85/yr internet tax (RBS Levy)

Support - OptiComm supports government policy to subsidise the delivery and ongoing operation of loss making telecommunications services in regional areas, and to reduce the digital divide that negatively affects rural Australia.

Broad based tax - OptiComm agrees with the government's own Productivity Commission findings and the Vertigan report finding, that the best way to fund a regional telecommunications subsidy is through consolidated revenue (general taxation), and the second best (if the first option is off the table) is through a single broad-based industry levy (rather than the proposed narrow tax).

Large and disproportionate impost - The current narrowly targeted tax of \$85/year for each fixed line internet service will make this new tax one of the highest in Australia (along with taxes on alcohol and cigarettes).

Poor technology for the bush - The poorly designed narrow targeting of the tax on "fixed line" services means funding provided by other network operators to NBNCo to support infrastructure in the regions will only cover 5% of its costs. This fails to provide adequate and sustainable funding. Regional residents will continue to suffer with second rate services as NBNCo will not be able to provide and update adequate infrastructure/capacity while it is paying for 95% of the cost itself. The large cost of delivering good regional infrastructure without adequate funding will be unsustainable.

NBN Bypass - The operators of mobile/wireless NBN Bypass plans (eg Telstra, Optus and others) will avoid paying the tax, therefore distorting competition and allowing them to avoid contributing their fair share to regional Australia.

Obsolete and incorrect - The Bill's Explanatory Memorandum, which states that mobile broadband is not directly substitutable for fixed line broadband, is incorrect. That statement has been obsolete for some years.

The following pages expand on the above points in more detail.

1. Support

OptiComm strongly believes in the benefits to regional communities of providing good quality telecommunications services – both voice and internet. We want to see an equitable mechanism put in place that gives ongoing and sustainable funding to provide, develop, support and maintain strong regional telecommunication networks/services.

2. Broad based internet tax

The proposed new internet tax only targets high speed fixed line networks, in stark contrast to the broad industry tax traditionally levied to fund uncommercial telecommunications services in regional and rural Australia, such as the Universal Services Obligation (USO). We consider that this is very poor policy design (as does the Government's Productivity Commission) and urge the Government to reconsider the narrowly targeted focus of the tax. If funds to finance the NBN's loss-making satellite and fixed wireless services are to be collected from the telecommunications industry (rather than from consolidated revenue), then the cost should be shared broadly across the industry as is rightly the current situation for voice services in the regions.

The following is an extract from the Government's own Productivity Commission report in relation to a USO for Telecommunications (voice and internet).¹ The report provides well considered, sensible and equitable recommendations.

RECOMMENDATION 5.1

The Australian Government should reframe the objective for universal telecommunications services to provide *baseline* broadband and voice services to all premises in Australia, having regard to the accessibility and affordability of these services, once NBN infrastructure is fully rolled out.

To contain costs to the broader community, the *baseline* should be set to meet the basic needs of most Australians in the majority of circumstances.

3. Large impost – An \$85/yr tax on an internet service is incredibly expensive

At \$85/yr (\$7.10/month/service), the size of this new tax is enormous and will represent over 25% of the wholesale price of some broadband plans. With an equitable and broad based tax, the impost becomes a fraction of this amount, and is at a manageable level for families/individuals and those providing the services.

¹ Australian Government, Productivity Commission, Telecommunications Universal Service Obligation, Productivity Commission Inquiry Report, No.83, 28 April 2017, p.21
<https://www.pc.gov.au/inquiries/completed/telecommunications/report/telecommunications.pdf>

4. Poor technology for the bush

This point is very important and should sound warning alarms for those individuals, parliamentarians and groups with the interests of the regions at heart. The current funding base for this new tax is so narrowly targeted at a very small portion of the telecommunications industry, that NBNCo will only end up receiving a 5% contribution to the costs of funding services to the bush, paid for by a small handful of companies.

The submission from the Department of Communications and Arts states there will be: *“pressure on the ability of NBNCo to deliver fixed wireless and satellite to regional areas”*. They are right - we fully agree. But getting a contribution of only 5% towards the cost of the regional infrastructure/services does not go anywhere near resolving the issue. It isn't close to the level of sustainable funding that is required.

If this tax is left as proposed, funding of fixed wireless and satellite networks will become an onerous burden on NBNCo, having to pay 95 cents in the dollar of any spending. This will result in NBNCo using the cheapest method to fulfill its obligation to provide broadband in these areas, which is likely to be detrimental to regional consumers and to economic development of those areas. It is preferable to narrow the technology gap between cities and regional areas but the structure of this tax will do the opposite, cementing the digital divide that negatively affects rural Australians.

Without adequate and sustainable funding, the future adequacy of the quality of networks to the regions is doubtful, which will result in a considerable cost to the quality of life and economic growth in regional Australia.

In stark contrast to the 95% of costs that NBNCo will be required to pay under the proposed narrow tax, the Bureau of Communications Research (**BCR**) estimated that if the tax was collected from the broad base of the telecommunications industry, NBN Co would only have to pay about 13% of the required amount.² If the Government wants NBNCo to provide high quality internet services to the regions, and also become a viable business that is not a further and continuing drain on public resources, NBNCo should not be encumbered with this significant unfunded cost.

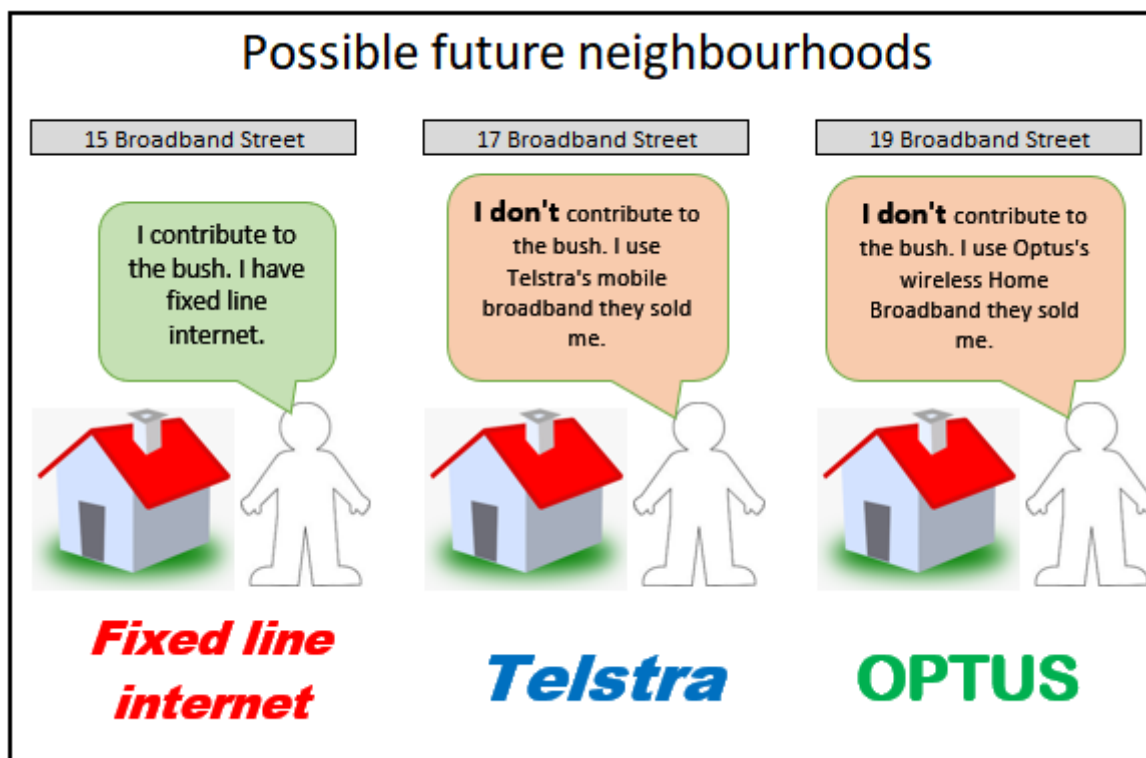
² Australian Government, Department of Communications and the Arts, Bureau of Communications Research, *NBN non-commercial services funding options*, Final Consultation Paper, October 2015, p.63.

5. NBN Bypass

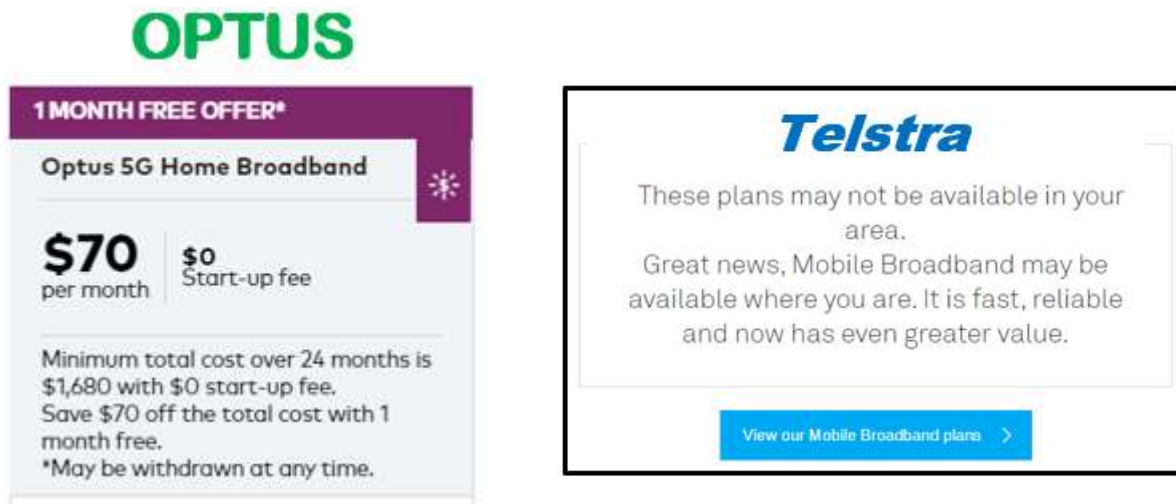
OptiComm has always competed with many other businesses in the broadband market in Australia, including wireless and mobile providers. This is just part of our market and will continue to be so.

OptiComm is fully prepared to pay our share towards equitable funding of regional telecommunications services, but we also expect that other businesses in the industry should do the same. However, the proposed new tax on fixed line internet services only imposes the tax on a very narrow segment of the industry and a narrow group of end user internet services and gives a free ride to others.

High speed broadband is, has been, and will continue to be provided via fixed wireless or mobile networks. Telstra, Optus and others already provide and promote high speed mobile/wireless “NBN bypass” services. Under the current RBS tax proposal we will have the absurd situation where two neighbours receive high speed broadband services, but only one of them will be contributing to regional telecommunications. The contributing customer will get their high speed broadband from a fixed line provider, while the non-contributing customer will get their high speed broadband from a mobile/wireless provider. This is both inequitable and contradictory to good policy.



As mentioned, fixed line broadband has competed with high speed wireless/mobile broadband for some time, and the industry is well aware of its availability. Evidence of this is available with a quick “google” search. Two examples from the major players are shown below:



We are unsure as to what the case may be to explain the inequitable decision to exclude mobile services from the collection base for the RBS tax, as the publicly available information does not support this policy.

We attach a report from Frontier Economics regarding the economic principles that should apply to the funding of non-commercial services. This report was commissioned by OptiComm in response to the BCR’s review of funding options for the NBN’s fixed wireless and satellite networks. Though the Frontier Economics report is now a few years old, it remains very relevant to the RBS tax and we ask that it is considered by the Senate Committee.

6. Key assumptions in the Bill’s updated Explanatory Memorandum

In presenting an assessment on who should contribute to the tax, the Bill’s Explanatory Memorandum (**the EM**) states that mobile broadband and fixed line broadband are not directly substitutable, mainly due to the high cost of data usage on mobile broadband. This statement is not valid based on what is now happening in the market. The EM compares the cost of data on an Exetel fixed line plan with an Optus mobile plan. Unfortunately, the EM refers to plans available in 2017.³ This is important as the data available on mobile broadband plans is now considerably cheaper, with significantly higher data allowances. For example, the EM refers to a 2017 Optus 4G mobile plan with a monthly download limit of 50 GB costing \$70/month on a 24 month contract. Optus now sells a 4G wireless broadband plan for \$68/month with 500 GB data and, most importantly, a 5G home broadband plan for \$70/month with unlimited data and guaranteed superfast speeds.⁴ Given the obvious relevance of this point to the Government’s basis for a narrowly targeted tax and the

³ Telecommunications (Regional Broadband Scheme) Charge Bill 2019, Explanatory Memorandum, pp 28-29

⁴ Optus website 7 January 2020 <https://www.optus.com.au/for-you/broadband-nbn/5g-home-broadband/5g-home-broadband-plan#emailDetails>



distortionary effect the tax will have on competition in telecommunications markets, it is extremely concerning that this data was not updated when drafting the 2019 Bill.

That said, we do fully expect that the relevant ministers, shadow ministers, cross benchers and senate committee members will all have access to current and accurate information on which to assess the merits of the Bill.

Conclusion

OptiComm supports the Government's policy to ensure that good quality broadband services are available for Australians in regional and rural areas, to minimise the digital divide. Though we consider that these loss-making services should be funded from consolidated revenue, we accept the Government's decision to fund NBNCo's fixed wireless and satellite services via an industry levy, however, we urge the Government to apply an equitable and broad industry tax rather than the proposed narrow tax on high speed fixed line broadband services.